



REPUBLIC OF LEBANON
MINISTRY OF FINANCE

Budget Proposal 2010

– A Detailed Report August 2010–

This report aims at presenting the rationale behind Budget Proposal 2010 and explaining the underlying figures of both revenues and expenditures.

The report starts with a general overview that highlights the objectives underlying the preparation of Budget Proposal 2010 and as well the general macroeconomic context. It also presents the major aggregate figures of the budget, at the level of budget revenues, budget expenditures and resulting balances.

The second and third sections address budget revenues and budget expenditures, respectively, shedding light on the major policy measures and explaining the main components.

A fourth section is dedicated to the debt article in order to provide details about the legal framework for government borrowing.

The report is finally supported by four annexes detailing tax and non tax-revenue amendments, social spending as well as an additional budget allocation through a separate law.

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I. CONTEXT AND MAIN FIGURES

In line with the ministerial declaration, the main **objectives** of the **Budget Proposal 2010** can be summarized as follows:

- To provide better services to citizens by increasing spending on social and health benefits while attempting to improve the efficiency of social assistance programs,
- To enhance capital expenditure and revamp infrastructure (electricity, road and water) in order to stimulate economic activity and achieve a more sustainable and regionally-balanced growth,
- To rein in the debt-to-GDP ratio and maintain it at a stable level.

The Budget Proposal 2010 comprised several policy measures. On the revenue front, the rate of the tax on interest income was raised from 5 to 7 percent and the property registration fee for property values exceeding LL 750 million was also increased by two percentage points (from 5 to 7 percent). Further, the Budget Proposal accounted for the yearly rent on users of government owned seashore land - if the seashore violations' law is voted by the Parliament. In parallel, the Proposal almost doubled capital expenditures in GDP terms and continued the effort started in earlier budgets to improve the coverage of the budget for transparency purposes.

Budget Proposal 2010 was prepared in the context of the nascent global and regional recovery, following the severe woes that afflicted the world economy, at a time where Lebanon continued to witness a buoyant economic activity, in line with the high growth rates the country achieved during the last years. Nevertheless, the macroeconomic projections underlying the Budget Proposal are based on a conservative approach, as shown by the figures presented below¹, to hedge against any unexpected adverse event:

- **Growth**: the economy is expected to register a 4.5 percent real growth rate in 2010, down from an estimated 8 percent for 2009. The nominal growth is estimated to reach 8.4 percent.
- **Private sector deposits**: are estimated to grow by 11 percent in 2010, with a dollarization rate of 64.5 percent and average deposit rates of 6.75 percent and 3.05 percent on LL deposits and USD deposits respectively.
- **Inflation**: the GDP deflator is projected at 3.7 percent for 2010.

In terms of figures, **budget revenues** (excluding treasury revenues) are anticipated to amount to LL 12,880 billion, up by 7 percent from their Budget Proposal 2009 level. **Budget expenditures** (excluding treasury expenditures) are expected to increase by 20 percent, reaching LL 19,538 billion in Budget Proposal 2010.

The **budget deficit** resulting from the stated revenue and expenditure figures is expected to widen by 35 percent, to LL 6,658 billion. Correspondingly, the primary budget balance is

¹ Underlying the Budget Proposal 2010 figures are GDP estimates for 2009 and 2010 at LL 52,051 billion and LL 56,406 billion, respectively. These two figures are based on National Accounts 2008 and growth and inflation estimates for 2009 and 2010.

projected to register a deficit of LL 558 billion. In terms of ratio to GDP, the budget deficit will reach 11.09 percent, and the primary deficit 0.30 percent.

Budget Proposal 2010 was sent to the Council of Ministers on April 14th, 2010. It was reviewed, amended² and finally approved by the CoM on June 18th, 2010. The President of the Republic sent it to Parliament on July 9th, 2010 through Decree No 4600.

Table 1: Comparison of 2009 and 2010 Budget Proposals

(LL billion)	2009 Budget Proposal	2010 Budget Proposal	Change 2010/2009	%Change 2010/2009
Budget Revenues	11,389	12,880	1,491	7%
• Tax revenue	8,239	9,953	1,714	11%
• Non-tax revenue ⁽¹⁾	3,150	2,927	-223	-5%
Budget Expenditures	16,304	19,538	3,234	20%
• Primary expenditures	9,863	13,438	3,575	36%
• Interest payments	6,040	6,100	60	1%
• Principal repayment for foreign currency loans	401	0	-401	0
Budget Balance	-4,915	-6,658	-1,743	35%
Primary Budget Balance⁽²⁾	1,526	-558	-2,084	-137%

⁽¹⁾ Non-tax revenues in Budget 2009 include LL 151 billion grants; whereas grants in the fiscal performance reports (cash basis) are under Treasury revenues.

⁽²⁾ Primary budget balance excludes interest payments and principal repayment for foreign currency loans

II. BUDGET REVENUES IN BUDGET PROPOSAL 2010 AND UNDERLYING RATIONALE

Budget Proposal 2010 projected total revenues for 2010 at LL 13,682 billion, of which LL 12,880 billion of budget revenues and LL 802 billion of treasury revenues. This represents an approximate 8 percent growth in total revenues when compared to the overall collection in 2009. Underlying this rise in revenues, are conservative macroeconomic assumptions, coupled with major tax policy measures³.

On the macroeconomic front, budget revenues 2010 are based on relatively conservative assumptions, compared to the performance of the real economy in 2008-2009; in fact underlying Budget 2010 revenues is an estimated 4.5 percent real growth (which had long been Lebanon's historical average prior to the rebound in 2007), and an estimated 8.4 percent nominal growth.

At the core of Budget 2010 revenue estimates are the following main policy measures:

1. Increase in tax on interest income rate from 5 percent to 7 percent, taking into consideration a conservative 11 percent growth in private sector deposits, 64.5 percent dollarization rate of deposits and average deposit rates of 6.75 percent and 3.05 percent on LL deposits and USD deposits respectively.

² As per Decision No. 4 dated June 18th, 2010, which was corrected by a Letter from the Presidency of the Council of the Ministers to the Ministry of Finance (No. 1499/MS dated June 25th, 2010).

³ At the time of Budget 2010 preparation, the implementation date of the new tax policies which comes with the ratification of the Budget was projected for May 2010, and consequently the revenue yield from the new measures was calculated over 8 months in 2010.

2. The imposition of a yearly rent on users of government owned seashore land, the yield of which is estimated at LL 30 billion⁴ (note that the *Seashore violations draft* law further accounts for a penalty component on past years' infringements, however the settlement is not expected to come into effect in Budget proposal 2010).

3. Property registration fee of 7 percent for property values exceeding LL 750 million (the current 5 percent fee will remain eligible for property values below LL 750 million). This tax policy introduces an element of progressivity in property taxation, which renders the tax system more equitable on the one hand, and enhances revenue collection on the other. In addition, this measure may hinder speculative behavior in real estate as it expected to raise the cost of property ownership.

The main revenue aggregates of the Budget Proposal 2010 are the following:

- LL 9,953 billion of tax revenues, approximately 18 percent of GDP compared to 17 percent collected in 2009, mainly explained by the new tax policy measures, as described above.
- LL 2,927 billion of non-tax revenues, or 5.2 percent of GDP (compared to an average of 6 percent over the last 5 years), of which 3.4 percent of GDP of transfers from the Telecom Budget Surplus. The projected transfer from the Ministry of Telecommunication (as estimated by MOT) is net of the VAT amount collected from telecom services, which approximates LL 206 billion as per the Budget Annex of the Telecom and is accounted for under revenues for the Independent Municipal fund in Treasury accounts.

Table 2: Comparison of Revenues as per 2010 and 2009 Budget Proposals

(LL billion)	2009 Budget Proposal	2009 Actual Revenues	2010 Budget Proposal	%Change 2010/2009 actual
Total Tax Revenues	8,239	8,967	9,953	11%
• Taxes on income, profits and capital gains	1,894	1,839	2,214	20%
• Taxes on property	702	809	977	21%
• Domestic taxes on goods and services, of which	4,561	5,155	5,494	7%
<i>Excise</i>	1,479	1,899	1,960	3%
<i>VAT</i>	2,758	2,887	3,141	9%
• Taxes on international trade & transactions (custom duties)	714	768	839	9%
• Other tax revenues	368	396	429	8%
Total Non-Tax Revenues	3,150	3,069	2,927	-5%
• Income from public enterprises	2,407	2,456	2,279	-7%
• Administrative fees and charges	474	505	536	6%
• Fines and confiscations	6	7	7	-4%
• Other non-tax revenues*	263	100	105	5%
Budget Revenues	11,389	12,036	12,880	7%

*Please note that "other non-tax revenues" in Budget Proposal 2009 account for LL 151 billion of grants pertaining to Paris III pledges, whereas "other non tax revenues" in Budget 2010 does not account for grants.

⁴ The figure was revised from the LL 45 billion previously estimated in the Paris III International Conference Document.

It is important to note (*reference to above Table 2*) that Budget 2010 revenue figures were estimated based on the actual revenues collected in 2009, which cumulated at LL 12,036 billion, far exceeding the initial Budget 2009 forecast of LL 11,389 billion, due to a substantial change in the underlying macroeconomic context, whereby real growth turned out to be 9 percent (estimate) instead of the previously assumed rate of 4 percent. For this reason, comparing Budget Proposal 2010 revenues with Budget Proposal 2009 revenues becomes misleading, and hence Budget Proposal 2010 revenue estimates are compared to the 2009 actual revenue performance, on which they were built.

II.1 Tax revenues

II.1.1 Tax on income, profits and capital gains

Taxes on income, profits, and capital gains are expected to collect LL 2,214 billion in Budget Proposal 2010, 3.9 percent of GDP compared to 3.5 percent of GDP on average over the last 4 years. This is largely attributed to the implementation of a 2 percent additional tax on interest starting May 2010, the yield of which was estimated at around 0.3 percent of GDP over 8 months in 2010 (given the above stated monetary assumptions); which brings total projected revenues from the tax on interest to almost 1.5 percent of GDP compared to a historical average of 1.1 percent of GDP over the last 5 years.

Revenues from the other income tax components were projected based on the previous year's tax base, and an estimated 8.4 percent nominal growth.

II.1.2 Tax on property

Tax on property is projected at LL 977 billion in Budget Proposal 2010, or 1.7 percent of GDP. It accounts for a 2 percent additional registration fee on top of the current 5 percent on property values exceeding LL 750 million. The yield from this measure was estimated based on the number of properties with sales value exceeding LL 750 million registered in Cadastre in 2009 and the average value of those properties. The projections account for a conservative growth in the real estate market in 2010 (in terms of volume and value), resulting in a moderate yield of 0.06 percent of GDP over 8 months in 2010.

Taxes on property further account for LL 30 billion additional receipts in the recurrent tax owing to the expected ratification of the Seashore Law, namely the yearly rent component.

II.1.3 Domestic taxes on goods and services

Domestic taxes on goods and services are expected to collect LL 5,494 billion by year end, nearly 10 percent of GDP, in line with 2009 collection level. The expected developments on this front can be detailed as follows:

- Excise taxes are projected to collect LL 1,960 billion in 2010, of which LL 1,032 billion are projected excises from gasoline, based on approximately 2.2 billion litres of import and an average excise rate of LL 470 per litre⁵. Excise from cars, projected at LL 620 billion or 1.1 percent of GDP (compared to 1.2 percent of GDP in the last couple of years) assumes a more

⁵ As per Council of Minister's Decision # 9 dated January 23rd 2009.

conservative growth in car imports in 2010 than in 2008 and 2009. Excises on *tobacco* are projected to collect LL 300 billion in Budget Proposal 2010, or 0.53 percent of GDP, at constant share of GDP as in 2009.

- The VAT is projected to yield LL 3,141 billion in Budget Proposal 2010, growing with projected nominal growth for 2010 and hence keeping at constant share of GDP as in 2009 at around 5.6 percent.

II.1.4 Taxes on international trade (custom duties)

Budget Proposal 2010 assumes total imports at 48 percent of GDP, keeping in line with total imports in 2007 and 2009⁶. Based on similar import pattern (share of fuel versus non fuel), and hence similar average effective customs rate than in 2009, **custom duties** are then anticipated to reach LL 839 billion in Budget Proposal 2010, assuming a constant share of GDP at about 1.5 percent, similar to past years.

II.1.5 Other tax revenues

Other tax revenues (mainly fiscal stamps), are forecasted at LL 429 billion, equivalent to 0.8 percent of GDP; which are projected to reflect the expected growth in the economy for 2010.

II.2 Non-tax revenues

The Budget Proposal 2010 estimated non-tax revenues at LL 2,927 billion for 2010, equivalent to 5.2 percent of GDP compared to an average of 6 percent of GDP in past years. The below explains the underlying rationale behind the projected non-tax revenues in 2010, the main component of which is entrepreneurial and property income.

II.2.1 Income from public enterprises

Income from public enterprises is expected to total LL 2,279 billion in 2010, or 4 percent of GDP compared to an average of 4.75 percent in the last 5 years. This drop in receipts is mainly on account of a lower projected amount of transfer from the Budget Surplus of the Telecom. In fact, the Ministry of Telecom projects to transfer LL 1,894 billion to the Treasury in 2010 representing the revenues of the Telecom, net of the LL 200 billion of VAT on telecom (as per the Telecom Budget Annex), an amount that is supposed to be received by the Independent Municipal Fund and is accounted for under Treasury accounts.

Casino du Liban's third-year installment of LL 14 billion⁷ is factored into 2010 projection of total Casino receipts of LL 157 billion, an amount that is projected based on the estimated real growth in the economy. Other property income namely from National Lottery and Port of Beirut are estimated at around LL 60 billion and LL 65 billion respectively. Budget 2010 Proposal forecasts an amount equivalent to LL 40 billion accounting for the Treasury's share in BDL surplus profit

⁶ Imports peaked at 55 percent of GDP in 2008, a year which saw a hike in commodity prices, namely fuel prices and which is considered as exceptional

⁷ In February 2008, an agreement was reached between the Government of Lebanon and Casino du Liban Management, whereby the Treasury is entitled to a share of revenues from all gambling machines. An amount equivalent to LL 83 billion was agreed upon in settlement of past years' disputes, to be paid in four yearly instalments starting 2008.

as per Article 113 of the Code of Money & Credit, similar to the previous year's amount. More under property income, the draft Budget 2010 estimates the rent amount from Rafic Hariri International Airport at LL 50 billion, in line with previous trend.

II.2.2 Administrative fees and charges

Administrative fees and charges are projected to amount to LL 536 billion in Budget proposal 2010, or 0.95 percent of GDP, compared to a historical average of 1 percent of GDP. This is explained by lower collection of Administrative Charges, totaling LL 20 billion, compared to LL 25 billion in previous years, owing to Article 89 of Budget Proposal 2010 which cancels registration fees in Public schools and cancels public exam fees. Administrative fees are projected to collect LL 450 billion compared to LL 415 billion collected in 2009, reflecting the growth in the economy.

II.2.3 Fines and confiscations

Fines and confiscations are predicted to amount to LL 7 billion in Budget Proposal 2010 in line with past years' collection.

II.2.4 Other non-tax revenues

In Budget Proposal 2010, *other non-tax revenues* are expected to reach LL 105 billion, of which LL 97 billion of retirement deductibles. The draft Budget does not foresee any Budget support grant to the Treasury for 2010.

III. BUDGET EXPENDITURES IN BUDGET PROPOSAL 2010 AND UNDERLYING RATIONALE

Budget expenditures for 2010 are based (a) on actual figures of 2009, (b) on the set of macroeconomic assumptions stated earlier, (c) on the government policies which were defined in the Ministerial Declaration and integrated in the Budget Proposal⁸ and which accompanied the first version of the Budget Proposal as it was presented to the Cabinet and (d) on the amendments introduced by the Council of Ministers⁹ which led to a LL 886 billion increase in the budgeted allocations.

In continuity with the Ministry's earlier efforts started with the 2007 Budget Proposal to reform the national budget process and make its coverage more comprehensive, Budget Proposal 2010 includes allocations for a category of payments that were sometimes made outside the budget

⁸ As specified in the Letter addressed by the Minister of Finance to the Presidency of the Council of Ministers (Letter No. 1755/12 dated April 14th, 2010)

⁹ As per Decision No. 4 dated June 18th, 2010, which was corrected by a Letter from the Presidency of the Council of the Ministers to the Ministry of Finance (No. 1499/MS dated June 25th, 2010)

framework following the issuance of governmental decrees or the adoption of separate laws voted by Parliament. These allocations mainly resulted from the following¹⁰:

- An allocation was included as part of a program law to finance planned expropriation disbursements. Correspondingly, the separate draft law which allowed the issuance of treasury-bills to finance these payments outside the budget framework was cancelled (the separate draft law was originally included in Article 113 of the 2010 Budget Proposal prior to its cancellation).
- The 2010 Budget Proposal included a program law that allocates planned disbursements for contractors to compensate them for price differentials. Correspondingly, Law 69 dated April 23rd, 2009 which allows the issuance of treasury-bills to finance these payments outside the budget framework was abolished.
- In addition to the administrative allocation for the Council of the South, expected payments for compensations to be disbursed by the Council were included in the 2010 Budget Proposal¹¹.
- In addition to the administrative allocation for the Displaced Fund, payments to the Fund for "other construction" were included in the 2010 Budget Proposal¹².
- Domestically financed transfers to the High Relief Committee (HRC) for the payments related to the July 2006 War were included in the 2010 Budget Proposal.
- The 2010 Budget Proposal also integrated foreign financed spending by the Council for Development and Reconstruction (CDR) as a budget allocation. As part of the 2007 budget proposal, foreign financed spending by CDR had been introduced as an annexed table for information and transparency purposes. Following the inclusion of CDR foreign financed as an allocation, the Ministry removed the allocation for concessional loan repayments¹³.
- A key expenditure reform measure in the 2010 Budget Proposal is the amendment of Article 114 of the Public Accounting Law (PAL). This amendment had already been introduced in the 2007 Budget Proposal. The purpose of the amendment introduced by Article 113 of the 2010 Budget Proposal is to (1) cancel all allocations from Part I of the budget that have not been committed prior to December 31st of the year, (2) cancel all allocations of Part II that have not been committed prior to December 31st of the year except program laws and (3) cancel all allocations from both Part I and Part II that are committed but not spent until December 31st of the year except those that result in third party liability.

¹⁰ Diesel oil subsidy and NSSF past dues were also included in 2010 Budget Proposal for the second consecutive year.

¹¹ In addition to what was budgeted, the Council of the South is still entitled to the amounts provided by Law 362/2001 outside the budget framework.

¹² Contrary to the Council of the South, the amount granted in the Budget to the Displaced Fund will be deducted from the amount to which the Fund is entitled to outside the budget framework, as per Law 362/2001.

¹³ Concessional loan repayment will be paid from the treasury and will be recorded as a below the line item.

Table 3 : Economic Classification of Expenditures as per 2009 and 2010 Budget Proposals

<i>(LL billion)</i>	2009 Budget Proposal	2010 Budget Proposal	Change 2010/2009	%Change 2010/2009
Total Current Expenditures, including interest payments and excluding transfers to EDL	13,196	13,958	762	5.8%
• Materials and supplies	409	467	58	14.1%
• External services	140	163	23	16.7%
• Salaries and wages and related benefits	3,765	3,844	79	2.1%
• Subsidies and transfers (excluding transfers to EDL)	2,279	2,682	403	17.7%
• Other current expenses	396	516	119	30.0%
• Interest payments and financial charges	6,040	6,100	60	1.0%
• Unallocated general reserves	166	187	21	12.4%
Total Capital Expenditures	846	3,210	2,364	279.5%
• Acquisitions of land	0	0	0	0.0%
• Acquisitions of buildings	1	1	0	0.0%
• Acquisitions for the construction of roads, ports, and airports	4	154	150	3750.0%
• Acquisitions for the construction of water networks	1	76	75	14285.7%
• Acquisitions for the construction of electricity networks	0	0	0	NA
• Equipment	94	151	57	60.4%
• Construction in progress	486	2,416	1,930	396.7%
• Maintenance	144	306	162	112.3%
• Other expenditures related to fixed capital assets	116	107	-9	-7.8%
Other Expenditures	2,262	2,369	107	4.7%
• Transfers to EDL	1,861	2,369	508	27.3%
• Principal repayment of concessional loans	401	0	-401	-100.0%
Total Expenditures	16,304	19,538	3,234	19.8%

The main expenditure items in Budget Proposal 2010 are detailed below, in accordance with the economic classification of expenditures.

III.1 Materials and supplies

Materials and supplies are expected to increase from LL 409 billion in Budget Proposal 2009 to LL 467 billion in Budget Proposal 2010, representing a rise of 14 percent. Of the LL 58 billion increase: LL 26 billion was allocated for medicaments for use by civilians, LL 24 billion was allocated to the Lebanese Army, Security Forces, Customs, Prisons and Rehabilitation Centers, with the majority of the allocation for the purchase of medication and fuel consumption and, LL 8 billion for civil administrations, half of which to cover for their utility bills.

III.2 External services

External services include rents, postal services, insurance, advertisement, public relations and consulting fees. Total expenditures under this item are projected at LL 163 billion, compared to LL 140 billion in Budget Proposal 2009, thus exhibiting an increase of 16.7 percent. Of the LL 23 billion increase, LL 9 billion was due to an increase in rental allocations (for more details, kindly refer to Box 1), and LL 8 billion was due to an increase in advertising, publications (Ministry of Finance) and public relations expenditures (Ministry of Tourism and Ministry of Foreign Affairs).

Box 1: An Analysis of Allocations for Rents in the 2010 Budget Proposal

Total allocations for rents in the 2010 Budget Proposal reached LL 86 billion compared to LL 77 billion in 2009 Budget Proposal. The table below breaks down this LL 8 billion or 11 percent increase:

Table 4: Allocations for Rents in the 2010 Budget Proposal vs. 2009 Budget Proposal

(LL billion)	2009 Budget Proposal	2010 Budget Proposal	Change 2010/2009	% Change 2010/2009
Office Rents (excluding overseas diplomatic missions)	18	22	4	22%
School rents	20	25	5	24%
Other Real Estate (excluding overseas diplomatic missions)	18	15	-3	-17%
• United Nations House	16	12	-4	-25%
Overseas Diplomatic Missions	21	25	3	14%
Total Allocations for Rent	77	86	9	11%

Source: Ministry of Finance

Office (excluding overseas diplomatic missions), school and other real estate (excluding UN house and overseas diplomatic missions) rents increased by LL 10 billion. This is mainly due to Law 63 dated December 31st, 2008 which required that all rental contracts that are legislated by Law 160 dated July 22nd, 1992 (or what is known as "old rents") are increased by half of the increase in the minimum wage i.e. by 33,33 percent. Overseas Diplomatic Missions' rents increased by LL 3 billion. This is mainly due to the increases in overseas real estate markets. The UN House rent is witnessing a LL 4 billion decrease. This is because the 2009 Budget Proposal exceptionally allocated rent for 15 months whereas the 2010 Budget Proposal allocated rent for 12 months.

III.3 Personnel Costs

Personnel costs are derived by adding the allocations for salaries, wages and related benefits, retirement and end of service indemnities and transfers to the following public institutions: the Council for Development and Reconstruction, Council of the South, Displaced Fund, Lebanese University and Education Centre for Research and Development.

Table 5 : Personnel Cost in the 2010 Budget Proposal vs. 2009 Budget Proposal

(LL billion)	2009 Budget Proposal	2010 Budget Proposal	Change 2010/2009	%Change 2010/2009
Article 13: Salaries, Wages and Related Benefits	3,765	3,844	79	2.1%
Transfers to Public institutions	272	290	18	6.7%
• Transfers to Council of the South	10	9	-1	-10.3%
• Transfers to CDR	20	22	2	10.0%
• Transfers to Displaced Fund	6	7	1	8.3%
• Transfers to Lebanese University	226	238	12	5.4%
• Transfers to the educational center of R&D	10	15	5	45.7%
Retirement and End of Service Indemnities	1,300	1,400	100	7.7%
• Retirement wages	1,050	1,200	150	14.3%
• End of service indemnities	250	200	-50	-20.0%
Personnel Cost	5,337	5,534	197	3.7%

Source: Ministry of Finance

Allocations for personnel cost in the 2010 Budget Proposal reached LL 5,534 billion, a LL 197 billion increase compared to the LL 5,337 billion allocated in 2009. Of this difference, LL 79 billion was due to an increase in the bill of the salaries, wages and related benefits, LL 18 billion was higher transfers to public institutions and LL 100 billion higher allocations for retirement and end of service indemnities.

III.3.1 Salaries, Wages and Related Benefits

Salaries, wages and related benefits reached LL 3,844 billion in the 2010 Budget Proposal compared to LL 3,765 billion in 2009 or a LL 79 billion increase, fuelled by:

(1) A LL 278 billion rise in basic salaries and wages due to:

✚ The ongoing recruitment in the Army which led to a need of additional allocation of LL 60 billion¹⁴,

✚ The recruitment of 1,000 elements within the General Security Forces over 2009-2011 in order to strengthen capacity at the Passport Issuance Department, the regional branches receiving passport applications, the existing border centers and to staff newly built border centers¹⁵ which led to an additional LL 10 billion increase,

✚ The provision of three echelons to primary and intermediate school teachers as per the following schedule: a first one for 2009, a second for 2010 and a third in 2011¹⁶. Each echelon cost LL 15 billion and therefore in 2010, an additional allocation of LL 45 billion was included to cover the cost of one echelon in 2009 and two echelons in 2010,

¹⁴ As per Council of Ministers Decision No. 4 dated June 18th, 2010.

¹⁵ As per Council of Ministers Decision 79 dated May 13th, 2009.

¹⁶ Following Law 102 dated March 6th, 2010.

✚ The increase in the rates of teaching for (a) contractual teachers in the intermediate and secondary schools¹⁷ and (b) contractual teachers in vocational and technical schools¹⁸ which required an additional LL 6 billion in the allocations of the Ministry of Education and Higher Education ,

✚ The increase in the salaries and wages of non-Lebanese staff working for Lebanon's overseas missions as per applicable rules and regulations of the labor markets where the missions are operating which led to the inclusion of a LL 4 billion extra allocation and,

✚ The remaining increase is due to (i) the impact of Law 63 dated December 31st, 2008 which was included in the 2009 Budget Proposal in the reserves and has been redistributed in the 2010 Budget Proposal in the relevant articles and (ii) the natural annual growth in salaries and wages due to civil servants moving up the echelons and/or getting promotions.

(2) A LL 92 billion augmentation for "other purposes" in 2010 compared to LL 5 billion in 2009. This is to cover the costs of providing 4 exceptional echelons to teachers of secondary school¹⁹ and the recruitment of 4,000 elements within the Internal Security Forces. The recruitment is to take into consideration the imperatives of national cohesion²⁰,

(3) A LL 40 billion augmentation in allowances due to (i) a LL 4 billion increase in hospitalization allowance for the Army following the harmonization of tariffs practiced by the various public health insuring schemes²¹, (ii) a LL 3 billion increase in maternity and sickness allowance for the army following the ongoing recruitment, (iii) a LL 24 billion increase in the allowances paid to Internal Security Forces²² to offer permanent contracts to 10,637 elements recruited on contractual basis within the Internal Security Forces and (iv) a LL 6 billion increase to the General Security Forces that is mainly explained by the hiring of additional elements over 2009-2011,

(4) A LL 39 billion rise in budget reserve allocations to finance the filling of vacant positions across the civil administration,

(5) A LL 31 billion increase in indemnities due to (i) a LL 15 billion increase in daily transportation allowance from LL 6,000 per LL 8,000 which was reallocated from the budget reserves in 2009 to the relevant administrations in 2010, (ii) a LL 7 billion increase in family indemnities paid to the Internal Security Forces and (iii) a LL 4 billion increase in the various indemnities allocation for the Common Administrative Directorate at the Ministry of Education and Higher Education due to an eighty percent increases in rates paid for the monitoring and corrections of official exams and the adoption of Law 73 dated April 23rd, 2009 which requires that all schools' directors receive an administrative indemnity equivalent to 15 percent of their salary and,

¹⁷ As per the Joint Ministerial (MEHE and MoF) Decision 328 dated March 14th, 2009.

¹⁸ As per the Joint Ministerial (MEHE and MoF) Decision 329 dated March 14th, 2009.

¹⁹ If the draft law approved by Council of Ministers Decision No. 44 dated July 8th, 2010 is voted by Parliament

²⁰ As per Decision 12 dated March 31st, 2010.

²¹ Following Council of Ministers Decision No. 2 dated March 12th, 2009.

²² Following Council of Ministers Decision No. 12 dated March 31st, 2010.

(6) A LL 31 billion increase in allocations for the State's contributions to various health funds. Of this increase LL 23 billion is due to higher contribution to Civil Servants' Cooperative following the decision to (a) lower the capping on the 10 percent share of hospitalization fees paid by civil servants according to their category and therefore, a fifth category civil servant, for example, will now pay a maximum of LL 500,000 for a given hospitalization instead of LL 1,000,000 previously, (b) align coverage of medical consultation tariffs with the schedules practiced by other public health funds and (c) provide 100 percent coverage for cancer and chronic disease medicaments.

The magnitude of the increase observed in the above-mentioned items was offset by (i) the removal from the reserves of LL 380 billion included in 2009 to cover the LL 200,000 monthly increase granted by Law 63 dated December 31st, 2008 as allocations needed to cover the cost of Law 63/2008 were included in each administration as needed and (ii) the inclusion of LL 350 billion for the 1996-1998 retroactive instead of LL 400 billion in 2009.

III.3.2 Transfers to Public Institutions

Transfers to public institutions reached LL 290 billion in 2010 compared to LL 272 billion in 2009, explained by higher transfers to the Lebanese University and the Education Center for Research and Development. In fact, transfers to the Lebanese University increased by LL 12 billion (a rise of around 5 percent) of which the majority is earmarked to cover the increases in the university's rents²³ as well as the rise in hourly working rates for contractual teachers²⁴ and the increase in maintenance contracts as a result of the increased salaries and wages in the private sector²⁵.

This was partially offset by the decrease in the allocation for the Educational College at the Lebanese University which reached LL 9.5 billion in the 2010 Budget Proposal compared to LL 13.8 billion in 2009 following the appointment of only 409 secondary teachers in 2009²⁶ compared to 920 in 2008²⁷. Lastly, transfers to the Education Center for Research and Development increased by LL 5 billion to finance the execution of urgent educational projects.

III.3.3 Retirement and End of Service Indemnities

Retirement and end of service indemnities reached LL 1,400 billion in 2010 compared to LL 1,300 billion in 2009 following a LL 150 billion increase in monthly retirement wages from LL 1,050 billion in 2009 to LL 1,200 billion in 2010 which was partially offset by a LL 50 billion decrease in end of service indemnities from LL 250 billion in 2009 to LL 200 billion in 2010.

²³ As a result of the adoption of Law 63 dated 31st December 2008.

²⁴ Joint Ministerial Decision (MEHE and MoF) 1905 dated December 24th, 2009 that increased per hour rates paid to teachers under contractual arrangements.

²⁵ Decree 500 dated October 14th, 2008 that increased salaries and wages in the private sector and therefore led to an increase in cleaning and maintenance contracts values.

²⁶ As per Decree 2542 dated July 31st, 2009.

²⁷ As per Decree 700 dated November 15th, 2008.

Of the LL 150 billion increase in monthly retirement wages, LL 32 billion is for civilian personnel including education and the remaining LL 118 billion is for the national defense and armed forces²⁸.

Of the LL 50 billion decrease in end of service indemnities, LL 6 billion is for civilian personnel including education and the remaining LL 44 billion is for the national defense and armed forces²⁹.

III.4 Subsidies and transfers (excluding transfers to EDL)

Subsidies and transfers (excluding transfers to EDL) are expected to amount to LL 2,682 billion, up from LL 2,279 billion in Budget Proposal 2009, representing an increase of LL 403 billion, equivalent to about 18 percent. If retirement, end-of-service indemnities and transfers to the Council for Development and Reconstruction, Council of the South, Displaced Fund, Lebanese University and Education Center for Research and Development are set aside, as these have been already explained in the personnel cost section, the main changes in subsidies and transfers which amount to a total of LL 284 billion are due to increases in contributions both within the public sector and outside the public sector.

III.4.1 Contributions within the Public Sector

Contributions within the public sector reached LL 728 billion compared to LL 494 billion in 2009. This LL 234 billion increase is explained as follows:

- LL 110 billion increase in the allocations of the Ministry of Labor as transfers to the National Social Security Fund (NSSF) reached LL 350 billion in Budget Proposal 2010 compared to LL 240 billion in 2009. Of this increase, LL 60 billion represent a rise in the State's annual contribution to the NSSF as required by the NSSF Law (for more details see Box 3). The remaining LL 50 billion are to cover the deficit in the optional National Social Security Fund. This allocation was included in the budget for the first time resulting from the government's decision to settle certain claims made by both public and private entities,
- LL 60 billion increase in the allocations of the Ministry of Energy and Water which is explained by two factors: (a) a higher allocation by LL 30 billion to subsidize diesel oil – LL 60 billion in 2010 budget proposal to regularize the treasury advance granted in 2009 to subsidize diesel oil during winter 2009-2010 compared to LL 30 billion in the 2009 Budget Proposal and (b) LL 30 billion to rebuild oil storage tanks in Tripoli compared to none in the previous budget proposal,
- LL 23 billion increase in allocations to the Directorate General of Education as contributions to school funds which reached LL 81 billion in Budget Proposal 2010 compared to LL 58 billion in 2009. This is to cover the increase in the teaching rates per hour³⁰. Moreover, it should be noted that the LL 30 billion originally allocated in the 2009 Budget

²⁸ The LL 118 billion is divided as follows: LL 77 billion for the army, LL 28 billion for the Internal Security Forces, LL 9 billion for the General Security Force, LL 4 billion is for State Security Forces, and LL 1 billion for the Parliament Police.

²⁹ The 44 billion is divided as follows: LL 25 billion for the army, LL 9 billion for the Internal Security Forces, LL 7.5 billion for the General Security Forces, LL 1.5 billion is for State Security Forces, and LL 1 billion for the Parliament Police

³⁰ Following the adoption of the Joint Ministerial Decision (MEHE and MoF) 330 dated March 14th, 2009

Proposal to provide public-sector primary and intermediate students a daily allowance of LL 750 and LL 1,000 per effective day of attendance³¹, will be re-allocated as follows: LL 16.5 billion to fight drop out from schools, LL 13 billion for teaching extra-curricular subjects and LL 0.5 billion for transportation of students.

- LL 18.7 billion increase in allocations to the Ministry of Agriculture due to higher transfers to the Green Project by LL 15 billion from LL 8 billion in 2009 to LL 23 billion in 2010 and LL 4 billion additional transfers to the National Agricultural Institute from LL 6 billion in 2009 to LL 10 billion in 2010 in order to execute the Ministry's strategy to revive the agricultural sector, provide it with the adequate framework and guidelines and activate the agricultural quarantine and inspection services,
- LL 9 billion increase in allocations to the Ministry of Economy and Trade, mainly explained by the LL 62.1 billion contribution to the Directorate General of Cereals of Beetroot compared to LL 53.1 billion in 2009. Of the amount allocated in 2010, LL 59 billion is to regularize part of the treasury advances provided to the Directorate General between August 2007 and November 2008 to subsidize the price of wheat compared to LL 45 billion in 2009, and
- An increase of LL 8 billion in allocations to the Ministry of Interior and Municipalities of which LL 2 billion is for Civil Defense and LL 6 billion is to cover the operational and maintenance costs of the Special Telecom Unit to be established at the Ministry of Interior to fight organized crime and terrorist networks. The transfer should be covering the specialized training of the personnel and the purchase of sophisticated software.

Box 2: The Special Telecommunications Unit at the Ministry of Interior and Municipalities

In its meeting held on September 15th, 2005, and by Decision No 12, the Government decided to establish a Special Telecommunications Unit within the Ministry of Interior and Municipalities which would be in charge of intercepting telecommunicated communications based on administrative decisions.

The Special Telecommunications Unit was set up by virtue of Decree 15280 dated October 1st, 2005 which was later amended by Decree 15871 dated December 2nd, 2005 and is composed of one officer appointed by the Ministry of Interior and Municipalities, one officer appointed by the Ministry of National Defense and specialized employee from the Ministry of Telecommunications.

The unit is directly attached to the Minister of Interior and Municipalities. Interceptions requested by the Ministry of National Defense and the Ministry of Interior and Municipalities are to be approved by the President of the Council of Ministers prior to their execution. Interceptions are immediately executed by the Ministry of Interior and Municipalities under the authority, supervision and monitoring of the judge who issued the interception decision.

Decree 15280 dated October 1st, 2005 stated that the expenses related to the interception of telecommunications including equipment and human, administrative and technical resources are to be spent from the budgets of the Ministry of Interior and Municipalities and the Ministry of Telecommunications. A LL 6 billion allocation was therefore included in the 2010 Budget Proposal in order to finance the activities of the Unit.

³¹ Following Council of Ministers' decision 161 dated 5/5/2008.

III.4.2 Contributions outside the Public Sector

Contributions outside the public sector increased by LL 42 billion from LL 178 billion in the 2009 Budget Proposal to LL 221 billion in 2010. This resulted from a LL 41 billion increase in transfers to nonprofit making organizations and LL 1 billion increase in transfers to private parties. Transfers for Grants remained stable at around LL 1 billion in both budget proposals. The LL 41 billion increase in transfers to non-profit organization is mainly due to a LL 35 billion rise in transfers to non-profit organizations under contract with the Ministry of Social Affairs (see Box 5 for details).

Box 3: Allocations for the National Social Security Fund (NSSF)

Total allocations for NSSF in the 2010 Budget Proposal reached LL 350 billion compared to LL 240 billion in 2009 Budget Proposal. The table below breaks down this LL 110 billion or 46 percent increase:

Table 6: Allocations for the NSSF in the 2010 Budget Proposal versus 2009 Budget Proposal

(LL billion)	2009 Budget Proposal	2010 Budget Proposal	Change 2010/2009	%Change 2010/2009
Total Allocations for NSSF	240	350	110	45.8%
• Annual contribution to NSSF	160	220	60	37.5%
• Past dues for NSSF	80	80	0	0%
• Optional fund deficit	0	50	50	N/A

Source: Ministry of Finance

Annual contribution to NSSF as allocated in the 2010 Budget Proposal on behalf of 2009 has increased by LL 60 billion for the following reasons:

- Maternity and Sickness allowances to be paid by the NSSF for 2009 are estimated (based on actual 2008 and preliminary figures of 2009) to increase by LL 137 billion compared to 2008 which translates into an additional LL 34 billion the State should transfer,
- Annual 2009 subscription fees to the maternity and sickness allowances fund of taxi drivers (to be allocated in the 2010 Budget) are estimated (based on 2008 actual figures) to increase by LL 16 billion which would imply a LL 12 billion additional cost for the State. This is due to an increase in (i) the number of taxi drivers from 36,500 to 38,000 and (ii) the monthly minimum wage from LL 300,000 to LL 500,000 between 2007 and 2008,
- Similarly, allocations for family allowances subscriptions for taxi drivers have increased by LL 11 billion which imply an additional cost of LL 7 billion to be paid by the State,
- A LL 2 billion increase in amounts to be paid as settlements to public sector employees hired on contract based estimates derived from HI 2009 versus HI 2008,
- A LL 2 billion increase in subscription fees to be paid by the State on behalf of its employees on contract that are covered by the NSSF due to an increase in (i) the number of these employees from 6,000 to 6,500 and (ii) the increase in their average wage following the adoption of Law 63 dated December 31st, 2008 and,
- Annual 2009 subscription fees for mayors (to be allocated in the 2010 Budget) are estimated to increase by LL 1 billion which would imply a LL 0.5 billion additional cost for the State. This is due to an increase in (i) the number of "mukhtars" from 1,400 to 1,700 and (ii) the monthly minimum wage from LL 300,000 to LL 500,000 between 2007 and 2008.

III.4.3 Assistance within the Public Sector

Assistance within the public sector reached LL 22 billion in the 2010 Budget Proposal compared to LL 16 billion in the 2009 Budget Proposal. This is due to :

- The reinforcement of the Ministry of Environment's capacity through the inclusion of LL 2.1 billion additional allocation ,
- The re-classification of the LL 1.35 billion allocation for the project providing support to the Ministry of Economy and Trade,
- The strengthening of capacity at the Ministry of Energy and Trade through the inclusion of a LL 0.075 billion allocation for the Lebanese Centre for Energy Conservation which supports the Government of Lebanon to develop and implement national strategies that promote the development of efficient and rational uses of energy and the use of renewable energy at the consumer level and,
- The strengthening of training capacity and fiscal, customs and cadastre reform at the Ministry of Finance through higher allocations (+LL 2.3 billion) for the Institute of Finance and the capacity development for fiscal reform and management project.

Box 4 :The General Committee of the Tripoli Free Economic Zone

To encourage investment projects in Northern Lebanon, a free economic zone was set up in Tripoli as per Law 18 dated September 5th, 2008. The Law also established the General Committee of the Tripoli Free Economic Zone to administer the Zone, grant licences to investors and engage in contractual arrangement with operators to take in charge the construction and equipment of the Zone.

The General Committee is not subject to (i) the public enterprises regime as legislated by Decree 4517 dated December 13th, 1972, (ii) ex-ante control by the Court of Audit, (iii) the Civil Service Board, (iv) the Central Inspection Board and is under the administrative guardianship of the President of the Council of Ministers.

The mission of the Committee is to develop the free economic zone, attract capital and investments and encourage international trading activities. The executive power within the Committee is vested in an Administrative Board of six members and a president who are selected from both the private and public sectors.

The Committee is responsible for coming up with policy proposals and projects, design the related strategies and programs and follow up on their execution. It also monitors the work conducted by the Zone operators and the quality of the services the beneficiaries of the Zone are entitled to. The Board is also in charge of the coordination with public administrations and enterprises.

Law 18/2008 allowed the Committee to get financing from allocations in the budget among other sources. Moreover, in 2009, the structure of the Committee (Decree 2226 dated June 11th, 2009), its employment rules and regulations (Decree 2283 dated June 15th, 2009) and the indemnities to be paid to members of its board (Decree 2407 dated June 20th, 2009) were adopted. A LL 5.2 billion allocation was therefore included in the 2010 Budget Proposal in order to finance the actual establishment of the Committee.

III.4.4 Membership Fees in Regional and International Organizations

Membership fees reached LL 21 billion in the 2010 Budget Proposal compared to LL 17 billion in the 2009 Budget Proposal mainly due to a LL 3.5 billion increase in allocations for Ministry of Public Health which amounted to LL 9 billion in 2010 following the inclusion of LL 2.5 billion for a polio vaccination program with UNICEF and a LL 1 billion for the WHO International Clinical Trials Registry Platform.

Box 5: Transfers to Non Profit Organizations Contracted by the Ministry of Social Affairs

Transfers allocated to non-profit organizations delivering social services on behalf of the Ministry of Social Affairs reached LL 137 billion in 2010 Budget Proposal compared to LL 102 billion in 2009

Table 7: Allocations for Non Profit Organizations under Contract with Ministry of Social Affairs

<i>(LL billion)</i>	2009 Budget Proposal	2010 Budget Proposal	Change 2010/20 09	%Change 2010/2009
Total Transfers to NPOs under MOSA:	102.5	137.1	34.6	33.8%
• Social welfare	87.0	100.0	13.0	14.9%
• Social and health projects with civil society	7.5	9.0	1.5	20.0%
• Center for handicapped	0.0	0.3	0.3	NA
• Centers for development services and their branches	1.0	15.0	14.0	1400.0%
• Youth protection projects	4.0	5.5	1.5	37.5%
• Handicapped rights protection	1.0	3.0	2.0	200.0%
• National Committee for eradication of Illiteracy	0.0	0.3	0.3	NA
• Development media union	0.0	0.3	0.3	NA
• Habitat strategies committees	0.0	0.2	0.2	NA
• Family support project	0.0	0.1	0.1	NA
• Reproductive health project	0.0	0.3	0.3	NA
• Volunteer work camps	0.0	0.4	0.4	NA
• Poverty reduction project	0.0	1.3	1.3	NA

Source: Ministry of Finance

This increase is due to:

- A LL 14 billion increase for the approximately 80 Social Development Centers and their branches to cover both their personnel costs and finance the provision of social services such as training, education and programs for the elderly, first aid, school health, vaccination, youth clubs and gardens for children,
- A LL 13 billion increase in transfers to NGOs providing social welfare following the need to reevaluate the tariffs paid to these organizations per day of care for the first time since 1996. A first step in this direction had already been made in 2009 with the revision of tariffs paid to NGOs taking care of handicapped persons per day of care and,
- A LL 2 billion increase in handicapped rights protection in order to assure the provision of adjacent services to handicapped people such as wheel chairs, water mattresses, orthopedics, diapers etc.

- A LL 1.5 billion increase in allocations for social and health projects with civil society for the increase in salary and wages and new projects,
- A LL 1.5 billion increase is also motivated by the need for MoSA to sign new contracts with organizations specialized in taking care of delinquency prone juveniles,
- A LL 0.3 billion increase in the allocation for the Center for Handicapped in order to provide psychological and speech therapy support to those who need them.

New social programs and additional allocations were also included in this budget and in particular a project for IT literacy, the reduction of poverty and strengthening of volunteering camps because of their positive impact on the development of rural areas, the preservation of their heritage and social cohesion as they bring young Lebanese from diverse regional and sectarian background together.

III.5 Transfers to EDL

Transfers to EDL are projected at LL 2,369 billion in Budget Proposal 2010, representing a rise of 27 percent compared to Budget Proposal 2009 (LL 1,861 billion). These payments are based on the expected consumption of fuel oil and gas oil in the last six months of 2009 and the first six months of 2010, which is paid in 2010, as per the lagged payment terms of the gas oil and fuel oil purchase contracts. Additionally, the budget transfer covers the expected natural gas consumption in 2010, considering that payments are made at the end of each month and EDL's operating deficit of LL 238 billion.

Following are the assumptions on which the 2010 transfer figure was based:

- Crude oil price of USD 76 per barrel³² and conversion factor of 9.3602 for gas oil and 4.8096 for fuel oil³³.
- Price of natural gas estimated by EDL at USD 200 per 1,000 cubic meters.
- Gas oil consumption of 800,000 metric tons in 2010, based on gas oil consumption of 1,200,000 metric tons in 2009 and given that the flow of natural gas in 2010 would substitute for about 400,000 metric tons of gas oil. Of the 800,000 metric tons, 403,000 metric tons will be covered for in 2010 budget.
- Fuel oil consumption of 1,080,000 metric tons in 2010, of which 540,000 metric tons will be covered for in 2010 budget, based on 2009 budget and discussions with EDL .
- Natural gas annual consumption of 601 million cubic meters.
- Surcharge of 3 percent to oil purchases, based on past averages, where value is price multiplied by quantity.
- Transfer of LL 140 billion to cover repayment of EDL loans (LL 67 billion to cover C-loans and LL 73 billion to cover BDL guaranteed loans, principal and interest)
- Revenue measures will be limited to reducing illegal connections (as discussed with EDL), and will achieve LL 50 billion additional revenues.

³² Based on International Monetary Fund projection dated December 18th, 2009. EDL's budget was prepared in January 2010.

³³ Based on World Bank's latest Public Spending on Electricity Sector report (published January 9th, 2008) available at the time the EDL's budget was prepared in January 2010.

- Operating deficit of EDL will amount to LL 238 billion, considering that non-energy operating expenditures, including wages and salaries, maintenance, electricity purchase, and miscellaneous payments will amount to LL 1,424 billion and revenues to LL 1,186 billion (EDL's draft budget submitted to MOF).

III. 6 Interest payments

Budget Proposal 2010 allocated LL 6,100 billion for **interest payments**, of which LL 3,820 billion (equivalent to 63 percent) for interest payments on domestic debt and LL 2,280 billion for interest payments on foreign-currency debt. This allocation represents a 1 percent increase compared to the figure provisioned in the Budget Proposal 2009. This slight growth resulted from higher domestic currency debt interest payments of LL 170 billion that was partially offset by a LL 110 billion drop in interest payments on foreign currency debt.

Table 8: Interest Payments as per 2009 and 2010 Budget Proposals

<i>(LL billion)</i>	2009 Budget Proposal	2010 Budget Proposal	Change 2010/2009	%Change 2010/2009
Total interest payments	6,040	6,100	60	1%
• Domestic currency debt	3,650	3,820	170	4.65%
• Foreign currency debt	2,390	2,280	-110	-4.6%

Source: Ministry of Finance

Out of the allocated LL 6,100 billion, LL 5,600 billion were provisioned for interest payments on borrowings committed by the end of October 2009. The remaining LL 500 billion were allocated for interest payments on new borrowings expected in 2010, taking into consideration the following assumptions:

- No privatization of the mobile phone sector.
- An expected cash-basis primary surplus of LL 422 billion (different from the primary balance listed above, in Table 1³⁴).
- 6.8 percent weighted average interest rate on new borrowing in LL treasury bills and notes in 2010 based on the average interest rates prevailing by the end of 2009 and on the distribution of subscriptions during the last six months of 2009.
- 6.29 percent weighted average interest rate on projected new Eurobonds issuances in line with latest secondary market levels.

III.7 Other Current Expenditures

Other current expenditures allocations reached LL 516 billion in the 2010 Budget Proposal compared to LL 396 billion in the 2009 draft law or a LL 119 billion increase. Of this increase:

³⁴ The primary balance listed in Table 1 is calculated based on budget allocations whereas the primary surplus mentioned in this section is calculated on cash basis.

- LL 78 billion represents an increase in the allocations for “judgements and reconciliations” which reached LL 85 billion in 2010 compared to LL 7 billion in 2009. Of this increase LL 40 billion is for reconciliations related to hospitalizations of uninsured citizens for years 2001-2010 and LL18 billion for reconciliations related to the “Palais des Congrès”,
- LL 16 billion increase in hospitalization for uninsured citizens,
- LL 14 billion increase in various and miscellaneous expenses allocations which reached LL 63 billion in 2010 compared to LL 49 billion in 2009. This was mainly due to (i) a LL 6 billion increase in allocations for elections as municipal elections organized in 2010 were estimated to be more costly than Parliamentary elections organized in 2009 (LL 28 billion for the former versus LL 22 billion for the latter) and (ii) a LL 6 billion increase in the budget of the Directorate General of Civil Aviation to cover taxes and fees to be paid in order to equip the Rafic Hariri International Airport and,
- LL 7 billion increase in secret expenses allocations which reached LL 20 billion in 2010 compared to LL 13 billion in 2009 of which LL 3 billion are for the Army and LL 4 billion for the Internal Security Forces.

III.8 Acquisitions

Acquisitions of Land, Buildings, Roads, Ports, Airports, Water and Electricity Networks reached LL 230 billion in the 2010 Budget Proposal versus LL 5 billion in the 2009 Budget Proposal. Of the LL 225 billion increase:

- LL 150 billion were included in the 2010 Budget Proposal as part of a LL 600 billion program law (Article 32) over 2010-2012 to pay for past and future expropriations by both public administrations, public enterprises and the Council for Development and Reconstruction and,
- LL 75 billion were included in the 2010 Budget Proposal to finance expropriations necessary for the construction of water dams.

III.9 Equipment

Allocation for equipment in the 2010 Budget Proposal reached LL 151 billion compared to LL 94 billion in 2009. This LL 57 billion increase resulted from the following main reasons:

- LL 34 billion increase for specialized equipment which totalled LL 89 billion in 2010 compared to LL 54 billion. This is mainly due to higher (i) military equipment allocation (+LL 21 billion) for both the Army and the Internal Security Forces, (ii) agricultural equipment (+LL 5 billion), radio equipment (+LL 3 billion) and health equipment (+LL 1 billion) and,

- LL 15 billion increase for IT equipment which stood at LL 29 billion in 2010 compared to LL 16 billion in 2009. This is mainly due to higher IT equipment allocations for the Ministry of Finance (+LL 7 billion), Ministry of Agriculture (+LL 2 billion), Ministry of Education and Higher Education (+LL 2 billion), the Internal Security Forces (+LL 2 billion) and the Ministry of Public Health (+LL 1 billion).

III.10 Construction in Progress

Construction in progress in the 2010 Budget Allocation reached LL 2,416 billion, a LL 1,930 billion or 397 percent increase compared to the LL 486 billion allocated in 2009.

The increase in construction in progress is due to:

- (1) An LL 871 billion increase in allocations for the Council for Development and Reconstruction which reached LL 1,074 billion in 2010 compared to LL 204 billion in 2009. Part of this increase reflects the effect of a re-classification. In fact, Of the LL 1,074 billion allocated in 2010, LL 450 billion is funded from foreign sources and LL 624 billion is domestically funded whereas the LL 204 billion allocated in 2009 was entirely funded from the budget as the LL 450 billion expected to be spent from foreign financing was included in an appendix table to the budget for informational and transparency purposes but not as a budget allocation that was calculated as part of the total budgeted capital expenditures given the different procurement rules governing foreign funding versus local funding. (For more details on the reasons behind the increase in the domestically financed CDR allocations kindly refer to Box 6),
- (2) A LL 275 billion allocation for the Higher Relief Committee in 2010 versus none in 2009 to cover the payments related to July 2006 War in 2009. It should be noticed that although no allocations were included in the 2009 budget proposal to cover HRC payments related to the July 2006, the Treasury transferred LL 500 billion in Treasury advances to the Committee in 2009 to cover the cost its 2006 war-related spending³⁵,
- (3) A LL90 billion increase in the allocation of the Displaced Fund which reached LL 120 billion in 2010 compared to LL 30 billion in 2009³⁶,
- (4) A LL 55 billion increase in allocations for the Ministry of Public Works and Transport which reached LL 171 billion in 2010 compared to LL 116 billion in 2009. Of this increase, LL 28 billion is for roads, LL 19 billion is for buildings, and LL 8 billion is for land and other constructions,

³⁵ Besides the LL 500 billion transfer related to the 2006 War, an additional transfer of LL 20 billion in Treasury advances was granted to the HRC for other types of relief works.

³⁶ The amount allocated in 2010 is to be offset from the amount granted to the Displaced Fund by Law 362 dated January 16th, 2001 outside the budget framework whereas the LL 30 billion allocated in 2009 was allocated in addition to the amount authorized in Law 362/2001.

(5) A LL 9 billion increase in the allocation for the Council of the South which reached LL 60 billion in 2010 compared to LL 51 billion in 2009³⁷ and,

Table 9 :Construction in Progress by Implementing Public Institution in the 2010 Budget Proposal vs. 2009 Budget Proposal

(LL billion)	2009 Budget Proposal	2010 Budget Proposal	Change 2010/2009	%Change 2010/2009
Construction in Progress	486	2,416	1,930	397%
• Displaced Fund	30	120	90	300%
• Council of the South	51	60	9	17%
• Council for Development and Reconstruction	204	1,074	871	428%
• Ministry of Public Works and Transport	116	171	55	48%
• High Relief Committee	0	275	275	NA
• Other	85	715	630	738%

Source: Ministry of Finance

(6) A LL 630 billion increase in allocations for other Ministries of which:

✚ LL 10 billion is due to an increase in the allocations for the Internal Security Forces Institute to be built in Aramoun following the amendments to the Ministry of Interior and Municipalities program law 38 which allocated a total of LL 58.5 billion over 2010-2013,

✚ An LL 19 billion allocation under the Ministry of Interior and Municipalities for the building of two prisons one in Northern Lebanon and the other one in the South,

✚ LL 30 billion is due to the inclusion of a program law (Article 30 of the 2010 Budget Proposal) under the Ministry of Energy and Water which allocated a total of LL 75 billion over 2010-2012 for the enlargement of the gas network within Lebanese territories in the context of the strategy to replace fuel oil electricity production with natural gas which is more cost efficient³⁹,

✚ LL 61 billion is due to an increase in the allocations for water dams which reached LL 100 billion in 2010 versus LL 39 billion in 2009 following the amendments to the Ministry of Energy and Water hydraulic works program law⁴⁰ which allocated a total of LL 323 billion over 2010-2013,

³⁷ Neither allocations were offset from the amount granted to the Council of the South by Law 362 dated January 16th, 2001 outside the budget framework.

³⁸ Article 15-b of the 2010 Budget Proposal.

³⁹ As per Council of Ministers Decision No 46 dated July 6th, 2006.

⁴⁰ Article 15-w of the 2010 Budget Proposal.

- ✚ LL 100 billion is due to the inclusion of a program law⁴¹ under the Ministry of Finance that aims to pay over 2010-2012 the LL 300 billion to cover the unexpected increases in the prices of raw materials. This amount is owed to contractors who executed or are currently executing projects on behalf of the Council for Development and Reconstruction and/ or public administrations and who submitted tenders for projects between 2001 and 2007 and were faced with unexpected increases in the prices of raw materials and,
- ✚ LL 404 billion is due to the program law⁴² under the Ministry of Energy of Water allocating funds totalling LL 1,772 billion over 2010-2013 for public works conducive to the production of an additional 700 MW of electricity.

Box 6: Domestically Financed Allocations for CDR (Construction in Progress)

Total domestically financed allocations for CDR (under “Construction in Progress”) in the 2010 Budget Proposal reached LL 624 billion compared to LL 204 billion in 2009 Budget Proposal. The table below breaks down this LL 421 billion or 206 percent increase:

Table 10 : CDR Construction in Progress Allocations in the 2010 Budget Proposal versus 2009 Budget Proposal

(LL billion)	2009 Budget Proposal	2010 Budget Proposal	Change 2010/2009	% Change 2010/2009
CDR-Domestically Financed, of which:	204	624	421	206%
Counterpart Funding for Foreign Financed Projects	125	182	57	46%
Projects Executed by CDR on Behalf of Ministries 1/	78	442	364	467%
CDR-Foreign Financed	0	450	450	NA
Total CDR-Construction in Progress	204	1,074	871	427%

Source: Ministry of Finance

CDR allocations for project execution in the 2010 Budget Proposal have increased by LL364 billion due to:

- A LL 108 billion allocation under the Ministry of Public Works and Transport, of which LL 98 billion is to regularize a treasury advance already paid to Hochtief⁽¹⁾,
- A LL 57 billion increase in the amount allocated under the Ministry of Education and Higher Education for the development and equipment of the campus of the Lebanese University at Hadath, In fact, this allocation amounted to LL 5 billion in 2009 and has gone up to LL 62 billion⁽²⁾ in 2010 budget proposal (of which LL 37 billion is to regularize treasury advances⁽³⁾ that were previously provided)
- LL 40 billion to cover payments for executed roads that were previously supposed to be transferred from the Ministry of Public Works and Transport,
- LL 40 billion for public schools of which LL18 billion for technical schools,
- LL 40 billion allocated under the Presidency of the Council of Ministers for expected

⁴¹ Program law included under Article 31 of the 2010 Budget Proposal. This program law is to replace Law 69 dated April 23rd, 2009 which allowed the government to issue treasury bills to finance the payments to be made to these contractors. The government will be allowed to exchange treasury bills issued to contractors for cash paid from the allocation.

⁴² Article 17 of the 2010 Budget Proposal.

disbursements regarding road projects contracted under Law 246/1993,

- LL 30 billion for the completion of the Zahrani-Tyre section of the Southern highway ⁽⁴⁾,
- LL 12 billion increase in “arbitration fees” which reached LL 13 billion in 2010, of which LL 8.5 billion is allocated to regularize a treasury advance to construction firm "Walter Bau"⁽⁵⁾,
- LL 10 billion increase in Rafic Hariri International Airport maintenance contract which reached LL 36 billion following mainly the increase in salary and wages as well as in prices of spare parts and materials and supplies,
- A LL 9 billion allocation to construct buildings for the Ministry of Finance ⁽⁶⁾ and,
- A LL 7.7 billion for the enlargement of the Roumieh prison and the construction of a tribunal hall within the prison.

Notes:

- (1) Following the amendment of the program law for the development and renovation of the Airport and its roads (Article 15-d(2)) of the 2010 Budget Proposal Law that reset the contract with Hochtief at LL703 billion instead of LL680 billion.
- (2) Following the amendment of the program law (Article 15-h (1) of the 2010 Budget Proposal.
- (3) As per Decree 18005/2006, Decree 772/2007 and Decree 1115/2008.
- (4) As per Article 33 of 2010 Budget Proposal Law.
- (5) As per Decree 10552/2006.
- (6) As per Article 20 of the 2010 Budget Proposal.

III.11 Maintenance

Maintenance in the 2010 Budget Allocation reached LL 306 billion, a LL 162 billion or 112 percent increase compared to the LL 144 billion allocated in 2009. Of this increase:

- LL 54 billion was due to the increase in the allocation for the maintenance of buildings which reached LL 100 billion in 2010 compared to LL 46 billion in 2009. In particular, allocations to the Lebanese University in Hadath reached LL 67 billion in 2010 compared to LL 18 billion in 2009, a large part of which will be used to regularize treasury advances⁴³ amounting to LL 49 billion and,
- LL 100 billion was allocated to the Ministry of Public Works for the maintenance of roads which reached LL 175 billion in 2010 compared to LL 75 billion in 2009.

⁴³ Provided by Decree 18004/2006, Decree 938/2007 and Decree 3374/2008.

Table 11 : CDR Allocations for Maintenance

<i>(LL billion)</i>	2009 Budget Proposal	2010 Budget Proposal	Change 2010/2009	%Change 2010/2009
Total CDR-Maintenance	20	69	49	241%
CDR-Ministry of Education and Higher Education: Lebanese University Campus in Hadath	18	67	49	272%
CDR- Ministry of Education and Higher Education: Central Administration Building	2	2	0	0%

III.12 Other Expenditures Related to Fixed Capital Assets

Other expenditures related to fixed capital assets in the 2010 Budget Allocation reached LL 107 billion, a LL 9 billion or 8 percent decrease compared to the LL 116 billion allocated in 2009. This decrease was due to:

- LL 17 billion lower allocations to the Special Tribunal for Lebanon (STL) which reached LL 61 billion in 2010⁴⁴ compared to LL 78 billion in 2009. Of this amount, LL 19.6 billion is to regularize treasury advances provided to the STL.
- LL 7 billion lower allocation to the Investment Development Authority of Lebanon (IDAL) for the Export Plus program. The allocation totalled LL 21.5 billion in 2010 compared to LL 28 billion in 2009. This follows Council of Ministers Decision No. 1 April 5th, 2006 which requires the phasing out of the Export Plus program in its current form through the reduction of the subsidy by 20 percent per annum.

These decreases were partly offset by a (i) LL 2 billion increase in studies, consultancies and monitoring for construction in progress (mainly at the Directorate General of Urbanism and Internal Security Forces) which reached LL 6 billion in 2010 versus LL 4 billion, a (ii) LL 13 billion increase in the studies and consultancies for the Ministry of Energy and Water of which LL 10 billion are an additional allocation for the 700 MW electricity production capacity program law.

IV. DEBT ARTICLES

As in previous years, Budget Proposal 2010 includes an article which sets the legal framework for the government's borrowing in domestic and foreign currencies. Article 5 of Budget Proposal 2010 includes:

- First, the authorization to the government to issue Treasury Bills in domestic currency. This can take place under a ceiling governed by the actual fiscal deficit, in addition to the rolled-forward budget allocations to the year 2010, as well as any additional allocations. Domestic debt maturities can be long, medium, and short. Treasury Bills can be issued through decisions taken by the Minister of Finance.

⁴⁴ The 2010 allocation is part of a LL108 billion program law⁴⁴ (as per Decree 737/2007 and Decree 1372/2009) to be paid over 2010-2011.

- Second, the authorization for the government to issue Treasury Notes in foreign currencies (Eurobonds) within a ceiling of USD 3 billion.
- Third, the amendment of Law 476⁴⁵, to:
 - (i) Authorize the Lebanese government, in the context of restructuring the public debt and reducing its cost, to borrow in foreign currencies for a minimum period of three years up to USD 8 billion instead of USD 7 billion or its equivalent, provided certain conditions are met.
 - (ii) Extend the maximum allowed maturity for such instruments from fifteen years to thirty years starting from the date of the first operation.
 - (iii) Issue at interest rates lower than the current interest rates paid by the Treasury on previous debt issues, as of the date of the borrowing instead of as of the date of the Law (i.e. December 12th, 2002).

⁴⁵ According to Law 476, the Lebanese government was authorized, in the context of restructuring the public debt and reducing its cost, to borrow in foreign currencies for a minimum period of three years up to USD 7 billion or its equivalent; provided that:

1. the interest rates be lower than the current interest rates paid by the Treasury on previous debt issues as of the date of this law, i.e. December 12th, 2002.
2. the proceeds or the borrowings, hereby authorized, be solely and completely applied to the replacement or the refinancing of existing debts in various local and foreign currencies.
3. the total value of such direct loans, issued Notes, deposits or agreements with Islamic banks be settled within a period not exceeding fifteen years from the starting date of these operations.

Law 476 provides also for the possibility of having the loans and/or the issued Notes and/or the deposits guaranteed by the governments and the central banks of friendly countries, provided that the conditions of such guarantees be determined by a decision of the Minister of Finance.

ANNEX I. TAX REVENUE AMENDMENTS

The following briefly explains the main tax revenue amendments included in the 2010 Budget Proposal:

Income Tax

Article 85: Increases the rate of the tax on interest income from 5 percent to 7 percent

Property taxes:

1- Recurrent tax:

- ❖ **Article 72:** With this article, property tax is eligible once property deeds are issued, and not awaiting the publication of the tax schedules by the tax administration.
- ❖ **Article 73:** grants a higher deduction from the rental value for the dwelling: LL 9 million (in lieu of the LL 6 million currently prevailing), to be implemented on rental income of the year 2008.
- ❖ **Article 74:** cancels Articles 59 & 58 of Property tax law dated 17/09/1962, which call for taxpayers earning rental income in excess of LL 20 million to declare property income and settle tax dues each year before the 1st of April (property owners with assessed rental income below the LL 20 million threshold, await the issuance of tax dues by the tax administration prior to tax settlement). As such, with this Budget 2010 amendment all taxpayers are eligible to declare property income and settle tax dues on self assessment basis before the April 1st deadline, irrespective of the amount of the rental income earned (i.e. this Article cancels the LL 20 million threshold), and this effective 2008 rental income.
- ❖ **Article 86:** this article renders un-occupied properties eligible to tax on rental income (the current law exempts un-occupied properties). This policy enters into effect one year after the ratification of Budget Law 2010 (ex: for rental income of 2010, filed and declared in 2011)

2- Registration fee

- ❖ **Article 82:** real estate property values exceeding LL 750 million will be eligible for 2 percent additional registration fee (i.e. 7 percent) on the tranche above the LL 750 million threshold whereas the tranche below LL 750 million will remain subject to the current 5 percent fee

3- Inheritance Taxes:

Article 76 allows for higher exemptions: a tax break is allowed for higher inherited amount.

Tax on international trade:

- ❖ **Article 83:** Hybrid cars are exempt at imports from custom duties and excises for a period of 3 years starting the publication of the law in the official gazette.

Domestic Taxes on Goods & Services:

- ❖ **Article 61** cancels the 5 percent sales tax on hotels & restaurants, and the tax on services (entertainment & gambling), to be replaced by the VAT.

- ❖ **Article 62:** cancellation of annual fee charged on the sellers of bottled alcoholic drinks.
- ❖ **Article 63:** change of fees charged on hotels, restaurants, nightclubs and pubs for serving alcoholic beverages
- ❖ **Article 65:** cancellation of excise tax charges on alcoholic beverages produced locally
- ❖ **Article 66:** allows the Minister of Finance to grant an amnesty on penalties that do not exceed 90 percent of the value of the penalty

Passenger departure Tax:

- ❖ **Article 80:** cancellation of departure tax by sea transportation, and amendment of passenger departure tax by air transportation to become LL 55,000; LL 77,000 and LL110,000 per passenger, in economy, business and first class respectively.

Article 70: grants 90 percent amnesty on collection penalties, provided unsettled dues are paid within 6 months from the ratification of 2010 Budget Law.

Fiscal stamps:

- ❖ **Article 38:** The basis for imposing the stamp fee should be net of the VAT
- ❖ **Article 39:** Change of stamp fee values for certain transactions

ANNEX II. NON –TAX REVENUE AMENDMENTS

The following briefly explains the main non-tax revenue amendments included in the 2010 Budget Proposal:

Administrative fees & Charges:

Article 53: Change the amount of the fee charged for the driving test (to become LL 30,000) & for the license (to become LL200,000)

Article 52: Change of fees for school & university degrees equivalence

Article 58: 90 percent amnesty on penalties due on unsettled mechanic fees for the years 2009 and backward, given the fee is settled within 6 months from the date of the official publication of the Budget Law in National gazette.

Article 90: imposes of a lump-sum fee on cars with plates compose of 3 and 4 digits, to be settled yearly with the mechanic fees (in the amount LL250,000 and LL500,000 respectively).

Article 93: amends the penalty amount due on unsettled mechanic fees.

Article 56: cancels fees charged on revenues collected by lighthouses

Article 89: cancels registration fees in public schools and the public exam fees, starting school year 2010-2011.

Article 59: 90 percent amnesty on penalties due on municipality fees for the years 2009 and backward, given the fee is settled within 6 months from the date of the official publication of the Budget Law in National gazette.

ANNEX III: SOCIAL SECTOR EXPENDITURES

Social sector expenditures witnessed a rise in terms of magnitude of 18 percent; they however dropped in terms of their share out of total expenditures. At LL 4,423 billion, social spending accounts for 22.6 percent of Budget Proposal 2010 total expenditures, compared to LL 3,756 billion (23.0 percent share) in Budget Proposal 2009.

The table below illustrates the changes that took place at social level between Budget Proposals 2009 and 2010.

Table 32: Main social expenditures as per 2009 and 2010 Budget Proposals

(LL billion)	2009 Budget Proposal	2010 Budget Proposal	Magnitude change 2010/2009	Percentage change 2010/2009
Health	692	774	82	12%
• Hospitalization in the Private Sector	307	323	16	5%
• Purchase of Medication	109	143	35	32%
• Hospitalization of Public Sector Employees	168	183	15	9%
• Maternity and Sickness Allowance	39	48	9	24%
• Other	69	76	7	10%
Education	1,176	1,481	305	26%
• Ministry of Education and Higher Education	1,041	1,333	292	28%
• Education Allowance	135	148	13	10%
Other Social Spending	1,888	2,168	280	15%
• Marriage Allowance	4	5	1	37%
• Birth Allowance	4	5	1	18%
• Death Allowance	5	5	1	15%
• Other Social Spending Allowance	5	5	0	0%
• Participation in Several Pension Funds	25	32	8	31%
• Ministry of Social Affairs	107	143	35	33%
• Ministry of Displaced	6	8	1	21%
• Transfers to Employees' Cooperative	187	210	23	12%
• Pensions	1,300	1,400	100	8%
• National Social Security Fund (NSSF)	245	355	110	45%
Total Social Expenditures	3,756	4,423	667	18%

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The rise of LL 667 billion in total social spending is due to the increase in all its sub-categories, namely Education (26 percent), Health (12 percent) and Other social spending (15 percent).

III.1 Health sector expenditures

Spending in the health sector in Budget Proposal 2010 amounted to LL 774 billion, thus increasing by LL 82 billion over the LL 692 billion in Budget Proposal 2009. This 12 percent increase resulted from the following underlying changes:

- A LL 16 billion increase in hospitalization in the private sector which reached LL 323 billion in Budget Proposal 2010, compared to LL 307 billion in Budget Proposal 2009. This came as a result of a rise in hospitalisation of the uninsured citizens, through Ministry of Health.
- A LL 35 billion increase in purchase of medication which reached LL 143 billion in Budget Proposal 2010, compared to LL 109 billion in 2009. The main reasons behind this ascend are a budget boost of (a) LL 9 billion for medicaments of Lebanese Army, Security Forces, Customs, Prisons and Rehabilitation Centres, and (ii) LL 26 billion for medicaments for use by civilians, of which LL 25 billion to be provided through the Ministry of Public Health.
- A LL 15 billion increase in hospitalization of public sector employees⁴⁶, which reached LL 183 billion in Budget Proposal 2010, compared to LL 168 billion in 2009. This rise is mainly due to the increase in hospitalisation allowance for Army (following the harmonization of tariffs practiced by various public health insuring schemes⁴⁷), as well as Internal Security Forces (following the offering of permanent contracts to some elements recruited on contractual basis⁴⁸).
- A LL 9 billion increase in maternity and sickness allowance, which reached LL 48 billion in Budget Proposal 2010, compared to LL 39 billion in Budget Proposal 2009, mainly explained by rises for the army, Internal Security Forces and General Security Forces.

III.2 Education sector expenditures

In the **education sector**, spending totalled LL 1,481 billion in the 2010 Budget Proposal, compared to LL 1,176 billion in 2009. This notable increase of LL 305 billion is attributed mainly to the LL 292 billion increase in the allocation to the Ministry of Education and Higher Education, and to a lesser extent to the LL 13 billion rise in Education Allowance.

III.2.1 Allocation to the Ministry of Education and Higher Education

The allocation to the Ministry of Education and Higher Education witnessed a notable rise in 2010 Budget Proposal as compared to 2009. The total increase of LL 292 billion to reach LL 1,333 billion is attributed to the following main factors, listed by order of magnitude:

⁴⁶ This category does not include the hospitalization of civil personnel within the public sector who are covered by the Employees' Cooperative. It consists therefore, of hospital and physiotherapy allowances for defense and security personnel within the public sector.

⁴⁷ This came following Council of Ministers Decision No. 2 dated March 12th, 2009

⁴⁸ This came following Council of Ministers Decision No. 12 dated March 31st, 2010 to offer permanent contracts to 10,637 elements recruited on contractual basis within the Internal Security Forces.

- LL 57 billion increase in the amount allocated under the Ministry of Education and Higher Education for the development and equipment of the campus of the Lebanese University in Hadath⁴⁹.
- LL 49 billion was allocated for the maintenance of the Lebanese University in Hadath, in order to regularize treasury advances⁵⁰.
- LL 45 billion to cover the provision of echelons to primary and intermediate school teachers (one echelon in 2009 and two echelons in 2010). The corresponding Law # 102, dated March 6th, 2010, states the following echelon schedule: a first one for 2009, a second for 2010 and a third in 2011.
- LL 40 billion for construction of public schools (of which LL18 billion for technical schools), covered through CDR allocations under Presidency of Council of Ministers.
- LL 23 billion increase in allocations to the Directorate General of Education as contributions to school funds which reached LL 81 billion in Budget Proposal 2010 compared to LL 58 billion in 2009. This is to cover the increase in the teaching rates per hour following the adoption of the Joint Ministerial Decision⁵¹.
- LL 12 billion is increase in allocation for the Directorate General for Higher Education as transfers to the Lebanese University, explained by the following three factors combined:
 - (i) LL 1.5 billion additional contribution to the Lebanese University Cooperative Fund in order to (i) cover the new hospitalization tariffs and align them with the tariffs applied by the Civil Servants Cooperatives and (ii) cover the increases in the price of medicaments following the decision by the Syndicate of Pharmacists to disallow discounts on prices.
 - (ii) LL 15 billion rise to cover the increases to be faced by the Lebanese University at the levels of (i) rent, upon the adoption of Law 63 dated December 31st, 2008 and (ii) per hour rates paid to teachers under contractual arrangements⁵² (iii) salaries and wages in the private sector⁵³ and therefore led to an increase in cleaning and maintenance contracts values and (iv) the introduction of three new specialties taught in English in

⁴⁹ This came following the amendment of the program law (Article 15-h(1) of the 2010 Budget Proposal), which allocated a total of LL 153 billion over 2010-2012 of which LL 62 billion in 2010. It should be noted that of the LL 62 billion allocated in 2010, LL 37 billion is to regularize treasury advances that were provided by Decrees 18005/2006, 777/2007 and 1115/2008.

⁵⁰ These treasury advances were provided by Decrees 18004/2006, 938/2007 and 3374/2008.

⁵¹ As per the Joint Ministerial Decision #330 dated March 14th, 2009 that was made between the Ministry of Education and Higher Education on one hand, and Ministry of Finance on the other.

⁵² As per the Joint Ministerial Decision #1905 dated December 24th, 2009 that was made between the Ministry of Education and Higher Education on one hand, and Ministry of Finance on the other.

⁵³ As per Decree 500 dated October 14th, 2008.

the Faculties of General Medicine, Dental Medicine and University Institute for Science and Technology.

- (iii) LL 9.5 billion decrease in the allocation for the Educational College at the Lebanese University, explained by the appointment of only 409 secondary education teachers in 2010⁵⁴ compared to 920 in 2009⁵⁵.
- (iv) LL 6 billion increase in the allocations of the Ministry of Education and Higher Education to cover the increase in the teaching rates for (a) contractual teachers in the intermediate and secondary schools⁵⁶ and (b) contractual teachers in vocational and technical schools⁵⁷.

III.2.2 Education Allowance

Within spending on education, **Education Allowance** also witnessed a rise, however to a more limited extent than the allocation to the Ministry of Education and Higher Education. In this respect, the 2010 Budget Proposal figure reaches LL 148 billion, which represents a 10 percent increase over 2009. The main reason behind this rise is higher transfers for General Security Forces and Internal Security Forces.

III.3 Other social spending

The expenditures pertaining to “other social spending” reached LL 2,168 billion in 2010 increasing by LL 280 billion compared to LL 1,888 billion in Budget Proposal 2009. This 15 percent increase is mainly due to the following four factors, listed in order of magnitude:

- LL 110 billion increase in NSSF which reached LL 355 billion in the 2010 Budget Proposal compared to LL 245 billion in the 2009 Budget Proposal. This rise is explained by two factors. On one hand, the State's annual contribution to the NSSF - as required by the NSSF Law - increased by LL 60 billion, and on the other LL 50 billion were allocated to cover the deficit in the optional National Social Security Fund⁵⁸.
- LL 100 billion increase in pensions, to reach LL 1,400 billion in 2010. This rise came following a LL 150 billion increase in monthly retirement wages⁵⁹, coupled with a LL 50 billion decreases in end of service indemnities⁶⁰.
 - (i) Of the LL 150 billion increase in monthly retirement wages, LL 32 billion is for civilian personnel - including education -

⁵⁴ As per Decree 2542 dated July 31st, 2009.

⁵⁵ As per Decree 700 dated 15 November 2008.

⁵⁶ As per the Joint Ministerial Decision #328 dated March 14, 2009 that was made between the Ministry of Education and Higher Education on one hand, and Ministry of Finance on the other.

⁵⁷ As per the Joint Ministerial Decision #329 dated March 14, 2009 that was made between the Ministry of Education and Higher Education on one hand, and Ministry of Finance on the other.

⁵⁸ For more details on NSSF, kindly refer to Box 3.

⁵⁹ Retirement wages rose from LL 1,050 billion in 2009 to LL 1,200 billion in 2010.

⁶⁰ End of service indemnities dropped from LL 250 billion in 2010 to LL 200 billion in 2010.

and the remaining LL 118 billion is for the national defence and armed forces (of which LL 1 billion for the Parliament Police, LL 4 billion is for State Security Forces, LL 77 billion for the army, LL 28 billion for the Internal Security Forces and LL 9 billion for the General Security Forces).

(ii) Of the LL 50 billion decrease in end of service indemnities, LL 6 billion is for civilian personnel - including education - and the remaining LL 44 billion is for the national defence and armed forces (of which LL 1 billion for the Parliament Police, LL 1.5 billion is for State Security Forces, LL 25 billion for the army, LL 9 billion for the Internal Security Forces and LL 7.5 billion for the General Security Forces).

- LL 35 billion increase in allocations to Ministry of Social Affairs, to cover for the increase in transfers to non-profitable organizations providing social care⁶¹.
- LL 23 billion increase in Transfers to Employees' Cooperative, which reached LL 210 billion in 2010, following the decision to (a) lower the capping on the 10 percent share of hospitalization fees paid by civil servants according to their category and therefore a fifth category civil servant, for example, will now pay a maximum of LL 500,000 for a given hospitalization instead of LL 1,000,000 previously, (b) align coverage of medical consultation tariffs with the schedules practiced by other public health funds and (c) provide 100 percent coverage for cancer and chronic disease medicaments.

⁶¹ For more details on transfers to NGOs, kindly refer to Box 5.

ANNEX IV- ADDITIONAL BUDGET ALLOCATION OPENED BY SEPARATE LAW

On July 23rd, 2010, Parliament adopted Law 123 that opens under in 2010 Budget chapter a LL20 billion allocation for equipment and maintenance. The extra allocation which is not included in the total budget expenditure figure appearing above is to be financed by the issuance of LBP treasury bills. The allocation will be distributed to the various economic items under equipment and maintenance through a Decision taken by the Speaker of Parliament based on a proposal from the Committee of the Parliament Office. The law allowed the provision of an emergency advance issued by a Decision from the Speaker of Parliament specifying the amount and the duration of the advance. The advance is to be regularized from the invoices that have been certified by the Committee of the Parliament Office.



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